



# **CRS Report for Congress**

## **Bolivia: Political Developments and Implications for U.S. Policy**

Connie Veillette  
Analyst in Latin American Affairs  
Foreign Affairs, Defense and Trade Division

### **Summary**

Political unrest in Bolivia during 2003 led to the resignation of President Gonzalo Sánchez de Lozada on October 17, 2003, fifteen months after he was elected. Succeeding him as President is his former Vice President, Carlos Mesa, a popular former television journalist, historian, and political independent. This change in leadership came about after months of protests led by indigenous groups and workers who carried out strikes and road blockages that resulted in up to 80 deaths in confrontations with government troops. The focus of the protests was the continued economic marginalization of the poorer segments of society especially in response to government plans to export natural gas via a port in Chile, an historic adversary of Bolivia. The new President faces many difficulties in governing a politically fractured society, one of the poorest nations in the hemisphere, within a context of a highly mobilized indigenous community, and the uncertainty of being able to obtain consensus on natural gas exports as a basis for the country's future economic development. The change in government and the role that indigenous groups played in it represents challenges for U.S. policy, which is seen as focusing almost exclusively on coca eradication and less on equitable economic development policies. This report will be updated as events warrant.

### **Political and Economic Background**

Bolivia is a land-locked country approximately three times the size of Montana. As a result of the War of the Pacific (1879-1883) with Chile, Bolivia lost part of its territory along the Pacific Ocean. Bolivia has preferential rights of access to the Chilean ports of Antofagasta and Arica, but it has no sovereign access, a source of lingering resentment among Bolivians. The population of 8.4 million people is the most ethnically diverse on the continent of South America. Quechua and Aymara are the two predominant indigenous groups who live largely in the altiplano and highland regions. Approximately 25% of the Bolivian population are Quechuan, 17% are Aymaran, 30% are mestizo (mixed), while 12% are of European origin. A 2001 census recorded that about 62% of



Bolivians 15 years of age and older identified themselves as indigenous. Seventy percent of Bolivians live below the poverty level with 34.3% earning less than \$2 a day, and the average per capita annual income was \$900 in 2002, according to the World Bank.

Despite the National Revolution of 1952 in which the indigenous population held sway and benefitted from land reform and expanded suffrage, indigenous groups have not been politically active, with few having served in elective office. In the 1980s, indigenous-based political parties and movements emerged, and there are now 41 members of the national legislature representing indigenous parties (Movement Toward Socialism, or MAS, and the smaller Indigenous Pachakuti Movement, or MIP). They have used Congress as a forum to advocate indigenous rights and have become increasingly vocal in making demands for equitable economic development, including the demand to be able to cultivate coca, and the preservation of Indian land and culture.

Like much of Latin America, Bolivia pursued state-led economic policies during the 1970s and early 1980s. In the mid-1980s however, external shocks, the collapse of tin prices, a major export earner, and higher interest rates combined with hyperinflation forced Bolivian governments to adopt free market economic policies. Bolivia was one of the first countries in Latin America to implement economic shock therapy under an International Monetary Fund (IMF) structural adjustment program. In the 1990s, many state-owned corporations were privatized. Gross domestic product growth from 1990 to 2000 averaged 3.5%. Sluggish growth in 2001 and 2002 of 1.2% and 2.5% respectively<sup>1</sup> fueled resentment that the benefits of globalization and free market economic policies were not reaching most of the impoverished population.

## Recent Developments

Gonzalez Sánchez de Lozada of the centrist National Revolutionary Movement (MNR) won the presidential election in 2002 with 22.5% of the vote. He had also served as President from 1993 to 1997, and as planning minister from 1986 to 1988, during which he became recognized as the architect of free market economic reforms. Evo Morales of the leftist Movement to Socialism (MAS) who ran on a platform critical of free market policies, and advocating indigenous rights, came in second in the 2002 presidential elections with 20.9%. As neither achieved a majority, the Congress, in accord with provisions of the Bolivian constitution, chose Sánchez de Lozada as President. He assembled a fragile coalition of the center-left Movement of the Revolutionary Left (MIR) and the populist center-right New Republican Force (NFR), the latter which initially served as an opposition party along with the MAS. A traditionally strong party, the center-right Nationalist Democratic Action (AND) showed poorly in the elections.

Sánchez de Lozada faced many political and economic challenges upon taking office. His small margin of victory, by only 43,000 votes over Morales, and his unstable governing coalition did not provide him with a governing mandate. In order to secure an IMF agreement, with its strict budget deficit targets, he proposed unpopular measures, such as tax increases, that led to popular discontent. In February of 2003, violent worker

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<sup>1</sup> Statistics are drawn from the World Bank *World Development Indicators 2003*, *Human Development Report 2003*, United Nations Development Program, and "Bolivia - Country Profile 2003, *The Economist Intelligence Unit*.

demonstrations erupted at the same time as a police strike, the latter protesting reduced resources under the President's budget proposal. Worker protests, combined with the police strike, and student demonstrations, led to encounters with the military that left 31 people dead. In response, Sánchez de Lozada fired and reorganized his Cabinet and backed off his tax proposal. At the same time, he was able to get the Congress to approve legislation that criminalized road closures and the non-payment of taxes. Protests continued at varying levels during the summer, growing in strength throughout the country as two Indian leaders became involved: Evo Morales of the MAS and Felipe Quispe of the Bolivian Coordinator of Syndical Unions and Campesino Workers (CSUTCB) and an MIP legislator.

The trigger for the most violent protests was a presidential proposal to ship natural gas via pipeline to Mexico and California by way of Chile, Bolivia's historic adversary. This sparked nationalist sentiment that recalled not just Bolivia's loss in the War of the Pacific, but past exploitation of the country's natural resources of silver and tin by foreign business interests. Just as most Bolivians do not believe that they benefitted from these earlier ventures, many present-day protesters believe that they will not benefit from the expected natural gas revenues.<sup>2</sup> These events occurred against a backdrop of growing resentment against U.S. policy which stressed coca eradication affecting approximately 50,000 growers who make their livelihood from both its licit and illicit cultivation. Some observers have also argued that resentment has grown in response to the role of the International Monetary Fund's requirements for additional loans.<sup>3</sup>

According to the Energy Information Administration of the U.S. Department of Energy, Bolivia has the potential to become a natural gas hub for the Southern Cone of South America, and a major exporter of liquified natural gas to Mexico and the United States. Bolivia's proven natural gas reserves are estimated to be as high as 52 trillion cubic feet (tcf). This would potentially make Bolivia a major world natural gas exporter with the second-largest gas reserves in South America, after Venezuela. A decision in 2001 between Repsol-YPF of Spain, British Gas, and British Petroleum to create a liquified natural gas (LNG) export consortium had raised hopes to export gas via pipeline to Mexican and U.S. markets by 2005. As Bolivia is landlocked, the country, and the companies involved, had been planning the construction of an estimated 430-mile pipeline to a port in either Chile or Peru at a cost of an estimated \$5 billion.<sup>4</sup>

The violent demonstrations and street blockages that paralyzed most of the country in September and October resulted in up to 80 deaths. The withdrawal of support by Vice President Carlos Mesa and members of President Sánchez de Lozada's governing coalition left the President with little recourse but to resign, which he did on October 17,

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<sup>2</sup> Larry Rohter "Bolivia's New Leader Takes Over a Chaotic and Angry Nation," *The New York Times*, Oct. 19, 2003, and Larry Rohter "Bolivian Peasants' 'Ideology of Fury' Still Smolders," *The New York Times*, Oct. 20, 2003.

<sup>3</sup> Jeffrey Sachs, "Call It Our Bolivian Policy of Not-So-Benign Neglect," *The Washington Post*, Oct. 26, 2003. Emad Mekay, "Politics: Activists Trace Roots of Bolivian Turmoil to IMF," *Inter Press Service*, Oct. 20, 2003. Mary Anastasia O'Grady, "An Ousted President Fears for Bolivia's Future," *The Wall Street Journal*, Oct. 24, 2003.

<sup>4</sup> "Bolivia: Country Analysis Brief," Energy Information Administration, U.S. Department of Energy, Aug. 2002.

2003. He was succeeded by Vice President Mesa, a newcomer to politics and an independent with no formal political party as a base of support. The parties comprising the former government pledged their support for the new administration. Opposition party leaders, such as Evo Morales and Felipe Quispe, promised to give the new government some breathing room, although Quispe was more adamant in stating his demands for actions he expected the new government to take.<sup>5</sup> Mesa appointed a new cabinet, also largely of political independents, and created the cabinet post of Minister for Indigenous Affairs. He announced plans for a referendum on the export of natural gas to be held this summer and overturned a 1997 decree that had given oil companies ownership of the natural gas they extracted, a major demand of indigenous and opposition groups. He unveiled an economic plan that puts most of the burden on energy companies and wealthy citizens. He has also shepherded reform legislation through Congress that allows more popular participation in elections. With his lack of political experience, a highly mobilized opposition, and his independent status with regard to political party, many observers predicted that the challenges to his success might be insurmountable.<sup>6</sup> Despite these challenges, Mesa posted a popularity rating of 78% in a February opinion poll, and two planned strikes in February were largely unsuccessful.<sup>7</sup> Constitutionally, Mesa can serve the remainder of Sánchez de Lozada's term that runs until 2007.

## The Role of Indigenous Movements

Despite the fact that the majority of Bolivia's population is indigenous, its political participation has traditionally been negligible. The issue of land tenure has been a longstanding source of conflict. An Agrarian Reform Law allows indigenous communities to have legal title to their communal lands. However, these communities argue that their lands have not been legally defined or protected, and that outsiders have been allowed to exploit their resources.<sup>8</sup> There have been numerous land occupations by landless farmers, some resulting in confrontations with police forces. The cultivation of coca, which is legal in the province of Yungas, is another source of conflict. Coca leaf is used legally by indigenous communities for spiritual and medical purposes, and its use is considered an important cultural right. U.S. and Bolivian policy to eradicate illegal cultivation aggressively has been met with violent protests in recent years. Despite reductions in cultivation in previous years, recent surveys have noted increases of 23% in coca cultivation in 2002 and 17% in 2003, according to the State Department's *International Narcotics Control Strategy Reports*.

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<sup>5</sup> "Bolivian Leader Quispe Says Protests in April Will Topple Mesa," *EFE News Service*, Oct. 20, 2003. Vanessa Arrington, "Bolivia's Coca Leader Gives Deadline," *Associated Press*, Oct. 22, 2003.

<sup>6</sup> "Political Risk Analysis — One Andean President Down...," *Emerging Markets Daily News*, Oct. 24, 2003. "Bolivia's Week-Old President Takes Flak Over Nominations," *Agence France Presse*, Oct. 24, 2003. Vanessa Arrington, "Indians March on Capital, Celebrate Popular Revolt; Bolivia's Citizen Movement, While Happy With a New President, Also Plans to Keep Pressure on Leaders to Address the Needs of the Indian Poor," *Associated Press*, Oct. 21, 2003.

<sup>7</sup> "Presidente de Bolivia Mantiene Alta Popularidad," *AP Spanish Worldstream*, Feb. 29, 2004.

<sup>8</sup> *Country Reports on Human Rights Practices 2002*, U.S. Department of State, Mar. 21, 2003.

The two most prominent indigenous leaders are Evo Morales, former presidential candidate, and current Member of Congress who leads the opposition MAS party, and Felipe Quispe, current Member of Congress from the MIP party and campesino union leader. A Quechuan Indian and former coca grower, Morales has based his rise in politics on the support of coca growers, and has since attracted other followers who are admittedly anti-American in outlook. In a recent interview, Morales stated, "There is a unanimous defense of coca because the coca leaf is becoming the banner for national unity, a symbol of national unity in defense of our dignity. Since coca is a victim of the United States, as coca growers we are also victims of the United States..."<sup>9</sup> Morales pledged to give President Mesa a short time period in which to govern. Felipe Quispe has been less generous, threatening to take to the streets in 90 days unless President Mesa takes certain actions to assist the native population. Quispe, an Aymaran Indian and rival of Morales, considers Morales to be a mainstream politician who will continue free market policies. Quispe, by contrast, wants to establish a self-ruling indigenous nation. In a recent interview, Quispe said if their demands are not met, "There will be more blood, more fighting, more rebellions."<sup>10</sup>

## Implications for U.S. Policy

Recent developments in Bolivia offer challenges to U.S. policy with regard to coca cultivation, the policy of opening economies to free trade and free market principles, and potential regional implications. Until setbacks starting in 2001, Bolivia was considered a success story in the eradication of coca cultivation. It is legal to grow limited amounts of coca leaf in the Yungas province for traditional uses, but is illegal in all other parts of the country. A lessening in resolve on the part of the Bolivian government with regard to coca eradication could embolden coca growers in other nations to organize, especially in areas such as Peru where indigenous communities also use coca leaf for medicinal and cultural purposes. Leakages of coca from traditional uses to narcotics would be seen as a setback for U.S. policy. Some observers contend that U.S. drug policies may cause wider instability in the region and fuel anti-American sentiment. The re-emergence of the leftist Shining Path guerrilla group in Peru's coca-growing areas is pointed to as a potential source of trouble, where growing opposition to U.S. policy makes inhabitants more amenable to violent protest, or to join the ranks of Sendero.<sup>11</sup> Opponents of U.S. antinarcotics policy argue that it is heavy handed and stresses eradication to the neglect of sustainable economic development. Proponents of U.S. policy argue that the drug trade promotes violence and corruption in source countries that destabilizes democratic governments.

As the United States promotes free trade and continues negotiations for a Free Trade of the Americas Agreement (FAA), protests against globalization and the degree of

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<sup>9</sup> Peter Beaumont, "Coca Farmer Hero Holds Sway in Bolivia - U.S. Dismayed as Socialist Becomes Nation's Power Broker," *The Observer*, Oct. 26, 2003.

<sup>10</sup> "Bolivian Protest Chief Wants Indian Nation," *EFE News Service*, October 20, 2003. Vanessa Arrington, "Indians March on Capital, Celebrate Popular Revolt," *Associated Press*, Oct. 21, 2003.

<sup>11</sup> Larry Rohter, "Bolivian Leader's Ouster Seen As Warning on U.S. Drug Policy," *The New York Times*, Oct. 23, 2003.

foreign investment complicate these negotiations. Brazil and Argentina are pursuing a deepening of Mercosur, a customs union with Uruguay and Paraguay, and with Bolivia and Chile as associate members, and are not seen as being as amenable to U.S. negotiating positions with regard to an FTAA. Protests in Argentina during 2001 and 2002 were fueled by anti-IMF sentiment, and Brazil's President Lula da Silva ran on a platform of resisting globalization. The United States has not engaged opposition leader Evo Morales to date. If he gains more power, or becomes a viable candidate for President in the 2007 elections, the United States could be faced with a Bolivian government that is less willing to work with Washington on both drug and trade issues.

Recent developments in Bolivia have regional implications with regard to the role of indigenous movements and public attitudes toward free market policies and international financial institutions, such as the IMF and World Bank. The resignation of President Sánchez de Lozada has emboldened the loose coalition of workers, Indians, and students in Bolivia to make demands for concrete changes in government policy. As such movements exist at varying levels of strength throughout the region, some observers have noted that they too could become more active, adopting the same tactics of demonstrations, strikes, and road blockages that were carried out in Bolivia. Brazil has its own landless movement where groups have illegally occupied land. Peru and Mexico have also experienced dissatisfied indigenous groups, some of whom have resorted to armed confrontations with government authorities. Other governments in the region have experienced vocal opposition to Washington-backed economic policies of privatization and foreign investment, similar to the sentiment expressed by Bolivian demonstrators. President Alejandro Toledo in Peru and President Lucio Gutierrez of Ecuador have each seen their popularity fall as they have proposed free market policies in order to obtain IMF support. Recent press reports quote leaders of Ecuador's Pachakutik indigenous party as planning protests against President Gutierrez's budget that cuts services for the poor.<sup>12</sup>

The re-emergence of tensions with Chile is another ramification of political discord in Bolivia. The proposal to export natural gas via a pipeline to Chilean ports has reignited nationalist sentiment and created calls by some Bolivians, including Evo Morales and Venezuela's President Hugo Chavez, to demand that Chile grant Bolivia sovereign access to the Pacific Ocean, something that the Chilean government rejects.<sup>13</sup> A free trade agreement between Chile and Bolivia that was to be signed in November has been postponed, citing a number of outstanding issues that needed to be resolved. Bolivia and Chile do not have formal diplomatic relations, but high-level discussions on trade and border issues have been held. A meeting in May is planned between President Lagos and President Mesa during which it is expected that access to the Pacific Ocean will be discussed.

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<sup>12</sup> "Political Risk Analysis — How Many More To Go?" *Emerging Markets Daily News*, Oct. 24, 2003. Mike Esterl, "U.S. Faces Hard Policy Choices As Latin America Simmers," *Dow Jones Newswires*, Oct. 21, 2003. "Editorial — Indigenous People Power," *Christian Science Monitor*, Oct. 23, 2003. Scott Wilson, "For Ecuador's Party of the Indigenous, Back to the Streets," *The Washington Post*, Oct. 30, 2003.

<sup>13</sup> Antonio Raluy, "Bolivian Revolt Reignites Demand for Return of Lost Land From Chile," *Agence France Presse*, Oct. 22, 2003. "Chile Will Not Grant Bolivia Sovereign Access to Pacific," *EFE News Service*, Oct. 20, 2003.